

Police and Fire Pension

Dear Pension Member:

Enclosed is your calendar year **2000** pension statement, an estimate of your normal age and service retirement benefits, and a Summary Annual Report. The pension statement shows your account's activity and your primary and secondary beneficiaries. If none are listed, your spouse is automatically your primary beneficiary. *Please call 441-8749 to request a beneficiary form if you would like to change or add a beneficiary.*

The benefit estimate assumes a 4% annual salary increase and a 7% annual return rate on assets. To help you in financial planning, benefit estimates for any future separation date are available at no charge (call 441-8749). We are working toward allowing pension members secure access to their own account data and allowing pension members to run their own benefit estimates from the City's intranet.

Below are calendar year end figures on members and benefit payments.

	1996	1997	1998	1999	2000
Active Member Count	564	571	590	545	565
Pensioned Member Count	252	271	272	293	300
Regular Pension Benefits	\$2,859,243	\$3,167,354	\$3,228,499	\$3,519,095	\$3,997,908
COLA Benefits Paid	\$184,606	\$190,722	\$205,246	\$214,286	\$235,834

In June, the City approved amending the pension with a Deferred Retirement Option Plan, or DROP. The DROP allows a member to retire for pension purposes, but to continue working. The member would receive a check every two weeks from his or her work, and the member's monthly pension benefit would be deposited into the member's DROP account. Plan B or C member could also chose to have their lump sum of contribution and interest deposited into his or her DROP account.

The member would choose how to invest the money in his or her DROP account. At the end of five years, or anytime before five years, the member must "retire-in-fact." When the member retires-in-fact, his or her monthly pension benefit will be paid directly to the member (not the member's DROP account) and the member will have access to the money in his or her DROP account.

The Pension Ordinance was changed, but we are awaiting Internal Revenue Service approval before the DROP will be available. The DROP will become effective the first day of the month following receipt of a favorable "Letter of Determination" from the IRS. **The DROP has gone through IRS "technical review", but has not yet been assigned to a specific IRS examiner.** We expect no problems, but cannot estimate an IRS approval date.

In September the City approved an opportunity for Plan B and C members to enroll in Plan A. The cost to switch to Plan A is the difference in contribution between an 8% contribution and the member's actual contribution retroactive from April 1, 1995 to the date they decide to switch to Plan A.

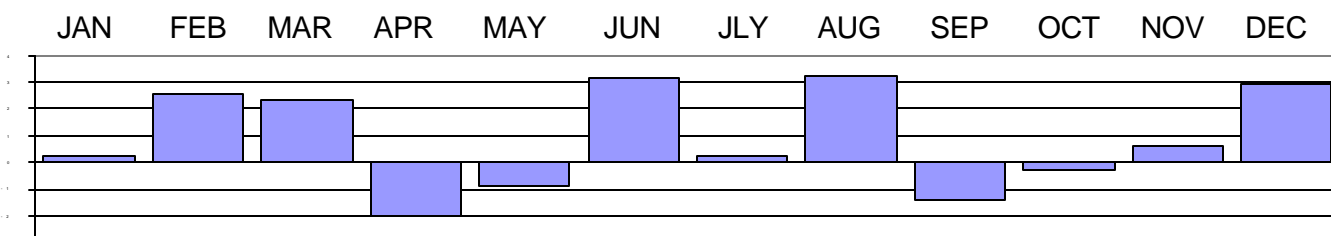
Members can switch to Plan A anytime from now through the later of the end of February 2001 or 30 days after the DROP is implemented by the pension.

In October, letters were sent to all members not enrolled in Plan A to inform them of the opportunity to change to Plan A. The mailing also estimated their cost to change to Plan A (assuming a December 31, 2000 change date) and provided benefit comparisons with, and without using the DROP.

In November, letters were sent to all members providing them with estimated benefit comparisons with, and without using the DROP.

If you are not enrolled Plan A, expect another letter soon with a switch cost estimate and more benefit estimate comparisons.

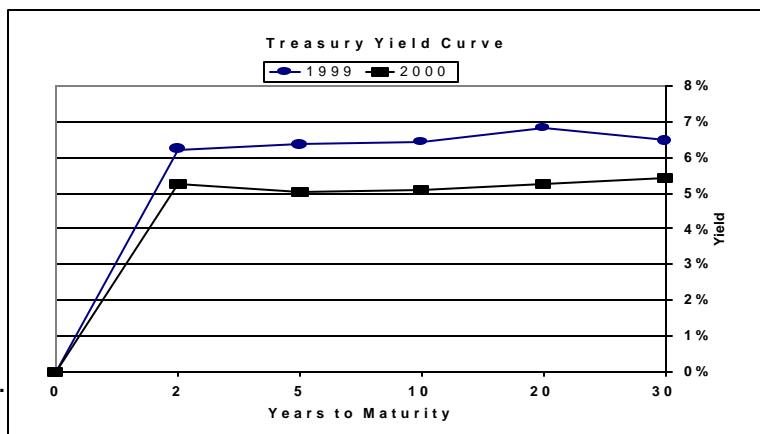
The compounded return for calendar year 2000 was calculated as 11.13%. Below is a graph of the monthly returns. Each horizontal line represents 1%.



Since bond prices move the opposite direction of interest rates, as interest rates decreased, bond prices increased.

In August 1999 Mayor Wesely agreed to the pension's strategy to attain a 30% equity stock position in 24 months. A 30% equity and 70% debt allocation has historically provided the lowest risk.

Equities are in professionally managed funds. They are diversified globally, by company size, investment style (growth and value), product/services sector, and invested in indexed and actively managed funds.



Year Ending	Equity Return	Bond Return	Portfolio Return	Ending Equity Allocation
2000	-10.11	17.58%	11.13%	23.53%
1999	30.52%	-8.68%	-4.192%	18.95%
1998	20.25%	12.39%	13.17%	10.64%
1997	26.94%	13.56%	14.72%	9.81%
1996	19.18%	1.25%	2.49%	8.50%
1995	28.86%	27.30%	27.40%	6.29%

Approximately \$11 million of equity purchases occurred in 2000.

The 2000 bond return was positive and the fund owned enough bonds to offset the negative equity return. (See Table)

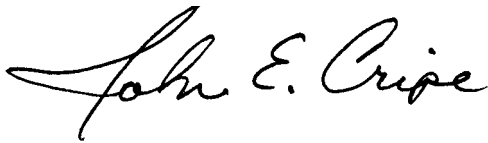
The pension fund is in excellent financial health. Continued health depends on both asset returns and City contributions. For the past two years, the budget office agreed to include a \$200,000 annual increase in its five year budget plan. However, the Mayor's budget proposal did not significantly increase the City's pension contribution in 1999 (\$41,198 increase) or 2000 (\$74,720 increase). The current budgeted City contribution is \$944,489. For the next five years, I have asked the budget office to contribute by multiplying the "Minimum" actuarial contribution rate times the Police and Fire payroll. Below is the sample table sent to the budget office.

Fiscal Year	Total City Contributions (requested by Pension Administration)
2001-02	\$2,143,260
2002-03	\$2,250,423
2003-04	\$2,362,944
2004-05	\$2,481,091
2005-06	\$2,605,146

The budget office has agreed to include a \$500,000 annual increase, for the next three years, in its five year budget plan.

Please plan for your financial future. The City of Lincoln offers payroll deduction savings programs for U.S. Savings Bonds, 1st Choice Credit Union, Deferred Compensation, Mutual Funds and the Roth IRA. I wish all of you and your families the best in 2001. Please call me (441-7879) or Paul Lutomski (441-8749) for more information on any of the topics mentioned in this letter or for any of your pension needs.

Respectfully,



John E. Cripe
Compensation Manager